INTRODUCTION

Buying a home may be the most exciting, confusing, and stressful financial transaction you ever undertake. Even if you have done it several times, you can still find the process complicated and intimidating. Countless loan documents, unfamiliar terminology, and uncertainty serve to dampen the joy of buying a new home or refinancing an existing one. If you understand the steps required to qualify for a mortgage loan, however, much of the stress can be avoided. The following explanation of the loan application process is intended to help you through the complexities of obtaining a mortgage loan.

THE LOAN APPLICATION INTERVIEW

The loan officer's job is to begin the collection of information that the lender needs to approve your loan. Your loan officer should explain the types of mortgage loans available to you, the interest rates and fees for each type, and the qualification requirements. The loan officer should fill out, or assist you in filling out, the loan application form.

By this time you should have a good idea of the general interest rates and fees being charged for the type of loan that best fits your needs and qualifications. The total cost of a mortgage loan consists of the interest rate on the loan, origination fees, discount points, and miscellaneous other charges. One point is equal to one percent of the amount of the loan and is usually collected at the loan closing, or settlement. The interest rate affects the amount of the monthly payment, while points affect the amount of cash you must have at closing.

The lender will usually offer a range of interest rate/point combinations to meet the borrower's needs. In general, the higher the interest rate, the lower the points. For example, if the current market provides for an 8.5 percent interest rate with 2 points, a nine percent rate may be offered at no points. If you are a first-time home buyer, the larger the monthly payments on the 9 percent loan may be easier to handle than the 2 points that will require additional cash at settlement.

When discussing the terms of the loan, make sure you understand how and when the rate and fees on the loan are going to be set. The loan officer should quote a rate and fee at the time the application is taken and then could guarantee, or "lock," the rate quote for a specified length of time upon approval. Some lenders will not "lock" rates. A rate lock protects you from rising interest rates while the loan is being processed, but it also typically commits you to close the loan at the rate and the fee even if rates decline prior to closing. Lock periods may run from 10 to 60 days, with longer periods available in some cases at an additional fee. The lock period must be long enough to get you through the estimated closing date. A 30-day lock affords you no protection if closing is at least 60 days away. I you want a lock rate, be sure to get an agreement in writing.

You may have the option to let the rate "float" getting the final rate and fees set nearer the settlement date. If you believe rates are declining and are willing to run the risk that interest rates could rise during the processing of your loan, you may select this alternative. Before you take a floating rate, make sure that the rise in interest rates will not create a problem for you, because you have insufficient income to cover the higher mortgage payments. In either case, make sure you understand exactly the terms of the lock-in agreement.

COMPLETING THE LOAN APPLICATION FORM

The loan application form asks for information on the property you are buying, terms of the purchase contract, and the employment and financial history of all loan applicants, including your spouse and/or other co-borrowers. The information will be verified, so it is very important to make sure that it is complete and accurate.

You can complete the loan application process much more easily and accurately if you prepare for it ahead of time. A great deal of detail will be asked about your personal finances, including bank account numbers and balances, current loan amounts and payments, and credit card account numbers. You will want to be thorough and precise in your answers, so it will be to your benefit to assemble this kind of information before the meeting with the loan officer. The following is a summary of the major kinds of information required on the loan application, the documents that may be needed, and the questions that you should be prepared to answer.

DETAILS OF PURCHASE CONTRACT AND THE PROPERTY

Because the property is security for the loan, the lender will have an appraisal made of the property, and you need to have the following information available:

- A complete copy of the sales contract, including any addendums, signed by all parties, showing the full names of the sellers and buyers as they will appear on the new deed, the amount of earnest money deposit, and who is responsible for closing costs, origination fees, etc.
- If the house is to be built, or is still under construction, a set of plans and specifications .
- The complete mailing address of the property, its age, and its full legal description.
- Name, address, and telephone number of the real estate agent and/or the seller of the property who will assist the appraiser in obtaining access to the property.

All of this information should be in the purchase contract. If not, consult the Realtor or the seller.

PERSONAL INFORMATION

The loan officer will want the social security numbers of you and your spouse (or other co-borrowers), age, number of years of schooling, your marital status, number and ages of dependents, and your current address and telephone number. If you have lived at your current address less than 2 years, be prepared to furnish former addresses for up to seven years. You will also be asked to detail your current housing expenses, including rent or mortgage payments, real estate taxes and insurance (your mortgage payment may include tax and insurance funds). You will need the name and address of your landlord(s) or mortgage lender(s) for the past two years.

Employment History and Sources of Income

Your ability to make the regular payments on the mortgage and to afford the costs associated with owning a home are primary considerations in the lender's loan approval process and should be your primary concern. Required information includes:

- At least two years' employment history with employer's name and address, your job title or position, length of time on the job, salary, bonuses, commissions, and average overtime pay.
- Recent paycheck stubs and Federal W-2 forms for two years (some lenders may require full Federal tax returns).
- Records of dividends and interest received from investments.
- If you are self-employed, full tax returns and financial statements for 2 years, plus a profit and loss statement for the current year to date.
- A written explanation if there are gaps in your employment record, because of circumstances such as illness or layoffs, or for any other reason.

The loan officer will have you sign a Verification of Employment (VOE) form. This will be sent to your employer to verify your employment and earnings. One will be sent to previous employers if you have been on the job less than two years. The loan officer may chose to use a general authorization form which allows them to verify employment and other financial information on the application.

If you are relying on income from other sources, such as rental property, social security or disability payments, child support, etc., you must provide adequate proof of the source. Appropriate documents could include canceled checks, copies of leases, certification of benefits, divorce decrees, and similar evidence.

PERSONAL ASSETS

A detailed listing of your personal assets is required on the loan application form. You will need to have the following information available to complete the form:

- All bank accounts, both checking and savings, and money market accounts, with the name and address of the institution, name(s) on the accounts, account numbers, and current account balances.
- Recent bank statements for at least two months.
- Current market value of stocks, bonds, CDs, and other investments.
- Vested interest in all retirement funds.
- Face amount and cash value of life insurance policies in force.
- Make, model, year, and value of automobiles owned.
- Address and market value of all real estate owned along with the amount of rents collected, the mortgage on the property, and the monthly mortgage payments (a profit and loss statement will be required for investment properties).
- Value of other personal property such as furniture.

As with the Verification of Employment, the loan officer will have you sign Verifications of Deposit (VOD) for each of the institutions (or a general authorization) where you have savings or checking accounts. Differences between the account balances reported by the institution and the balance you give for the loan application have to be reconciled, so be sure you have your correct current balances. The loan officer will look for the source of funds with which you will make the down payment and pay closing costs and fees. Gifts from a relative, church, municipality or non-profit organization may sometimes be used, but will probably have to be verified in writing.

PERSONAL INDEBTEDNESS

You will be asked to itemize all of your current bills, loans and other debts, including current balances and monthly payments. Debts include automobile loans, credit cards such as Visa, MasterCard and other retail store accounts, finance company, bank and credit union loans, and existing mortgages, including home equity loans. You should be able to give the account or loan number, the monthly payment, the number of payments remaining, and the outstanding balance.

The information you provide on the loan application will later be verified by a credit report ordered by the lender. Like employment and deposit information, differences between your figures and those on the credit report will raise questions and may delay the approval of your loan. It is to your advantage to take time to get your data right prior to filling out the loan application.

If you have had credit problems, you should inform the loan officer. Unemployment, illness, marital problems, or other financial difficulties can temporarily impair your credit rating. Provide a written explanation of the circumstances regarding the problem to be included with the loan application. The lender must consider such a written explanation as part of the underwriting analysis. If the problem has been corrected and your payments have been made on time for a year or more, your credit will probably be judged as satisfactory. Chronic late payments, judgments, or loan defaults; however, severely damage your credit standing and may prevent you from obtaining the financing you need to complete the purchase. If you have been through bankruptcy or foreclosure proceedings within the past seven years, be prepared to give full details and copies of applicable documents.

You will also be asked to explain the details if you are obligated to pay alimony, child support, or separate maintenance. Such obligations are treated like debt payments by most lenders and will be part of the underwriting analysis.

ADDITIONAL INFORMATION

You will be asked to sign a section of the loan application form which contains your certification that the information you have provided is correct to the best of your knowledge; your promise to advise the lender of any material changes in the information; and your consent to (1) verification of the application data, (2) submission of account history to credit reporting agencies, and (3) transfer of the loan or loan servicing to successors to the original lender.

The last part of the application form requests information on the race and gender of the applicants. The Federal Government uses this data to monitor lenders' compliance with fair housing and equal credit opportunity laws. Provision of this information is strictly voluntary on your part and has no effect on your loan application. The lender, however, is required by federal law to request the information.

Because of the particular circumstances surrounding a loan application, the lender may require additional information or documentation regarding you or the property after the application has been submitted for approval. Your loan officers make every effort to collect all data at the outset, but cannot foresee every eventuality. Requests for additional information are not necessarily bad omens and your primary concern should be in responding promptly with the information.

At the time the application is taken, you will probably be asked to pay for the credit report and appraisal fees. Depending upon the locality and the type of the loan, these fees will generally run up to $500.

Based on the information collected in taking the application, the loan officer may be able to pre-qualify you for the loan requested, but cannot approve the loan. That is done by the lender's underwriters after all documents and information have been received and verified.

Call our toll-free number or write to the address on the cover for a copy of any brochures for further consumer credit information.

Mortgage Loan Application Process

DEPARTMENT OF FINANCIAL INSTITUTIONS
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